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Improving the financial situation of the United Nations

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Report of the Secretary-General

I. Introduction

1. The present report updates information on the financial situation of the United Nations provided in the report of the Secretary-General of 12 March 1998 (A/52/444/Add.1). It also provides information on the financial situation of the Organization as at 30 September 1998 and cash-flow projections for the end of 1998.

II. Review of the financial situation

A. General overview, including projections for the end of 1998

2. The financial state of the Organization continues to be precarious. Total unpaid assessments at 30 September 1998 remained at the persistently high level of over $2.5 billion. The usable cash position in the combined General Fund, including the regular budget and reserve accounts, is already in deficit and, depending on the level of payments by the major contributors, the deficit may go as high as $247 million by the end of 1998. Usable cash for peacekeeping is declining steadily and is expected to end the year at $775 million, which would be the lowest level in five years. A significant portion of peacekeeping cash may need to be used, or cross-borrowed, by year-end to offset the regular budget cash deficit. Based on these projections, total combined regular budget and peacekeeping cash may fall as low as $528 million by the end of 1998. This projection would be one more in a series of declining year-end combined cash balances. Cash remaining in the peacekeeping accounts at 31 December 1998 will be needed to pay ongoing peacekeeping expenditures through the various mandate periods. Little if any balance is expected to be available to pay the more than $860 million owed to Member States for troops and equipment.

3. In summary, assessments duly agreed upon by all Member States by consensus have not been fully paid. Cash is down and obligations exceed cash balances. With a decreasing level of peacekeeping activity, the future availability of peacekeeping cash to cover the regular budget cash deficit is increasingly in doubt.

4. The present report analyses the three main indicators used in projections for the end of 1998, namely, unpaid assessments, available cash and amounts owed to Member States.

B. Unpaid assessments

5. The prompt collection of assessments is the bedrock of United Nations financial stability. There are no other sources of funds with which to maintain the Organization,

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or carry out the mandates entrusted to it by Member States. The Organization has no capital and the Secretary-General is not permitted to borrow. As a result, there is no substitute for the prompt collection of assessments.

6. The Organization's record in collecting assessments, however, is not good. At the end of September 1998, unpaid assessments aggregated $2,507 million, including assessments within the 30-day due period. This amount includes $683 million for the regular budget, $1,802 million for peacekeeping operations and $22 million for the international tribunals. The 1998 figure of $2,507 million for uncollected assessments was higher than the corresponding figure of $2,416 million at 30 September 1997. This increase of $91 million reflects an increase of $34 million for regular budget assessments, $55 million for peacekeeping assessments and $2 million for the tribunals.

7. By way of analysis, uncollected assessments at 30 September exceeded by 23 per cent the amount of total assessments made thus far in 1998. The same excess of unpaid assessments compared to total assessments existed a year earlier, but the excess then was only 7 per cent.

1. Regular budget assessments

8. The position of the regular budget shows some continuing improvement. As at 30 September, 100 Member States had paid their regular budget contributions in full for 1998 and all prior years. This is the first time in recent years that the number has reached 100 Member States paying in full by the end of the third quarter. While this improvement is heartening, other indicators are less favourable.

9. At the end of September 1998, regular budget payments of $877 million had been received for both current and prior years' assessments, some 81 per cent of the $1,086 million assessed for 1998. This percentage is down from 88 per cent and 87 per cent for 1997 and 1996, respectively. The amount collected in 1998 in respect of 1998 assessments was only $727 million, or 67 per cent of total 1998 assessments. In short, collections are down and that decrease markedly affects the cash position of the regular budget.

10. Regular budget assessments outstanding at 30 September are usually significantly higher than the amounts owed at 31 December, since payments based on current assessments for the major contributor only begin when that Member State starts its new budget year on 1 October. The amount of $683 million, outstanding on 30 September 1998, however, is unusually high and results in part from the major contributor not paying by 30 September 1998 some amounts which had been legislated for payment in its fiscal year beginning 1 October 1997.

2. Peacekeeping assessments

11. Unpaid peacekeeping assessments have risen steadily since 1990. Peacekeeping assessments outstanding on 30 September 1998 stood at about the level in 1995 and 1994, despite a significant decrease since then in the level of peacekeeping activity. Total outstanding peacekeeping assessments at the end of September amounted to $1,701 million, excluding $101 million of recent assessments within the 30-day due period.

12. At 30 September 1998, again excluding those assessments within the 30-day due period, the largest contributor owed some 61 per cent of total outstanding peacekeeping assessments, 9 of the 14 other largest contributors owed 17 per cent and 158 of the remaining 170 Member States together owed 22 per cent.

C. Available cash

1. Regular budget cash

13. The cash position of the combined General Fund also continues to be precarious. The cash deficit of $122 million at the end of 1997, while significant, would have been even worse if it were not for budgetary underspending in 1996–1997, which moderated the amount of negative cash balances at year-end 1997. Cash inflows from timely payments of 1998 assessments permitted the repayment of amounts borrowed from peacekeeping funds and eliminated the regular budget cash deficit by the end of January 1998. A continuing stream of regular budget receipts enabled the Organization to stay in a positive cash position until August, when it became necessary once again to borrow from peacekeeping funds. The payment in September by Japan of the balance of its regular budget contribution, however, permitted the repayment of borrowed peacekeeping funds and September ended with a slightly positive cash position.

14. While significant contributions are expected during the remaining three months of 1998, there is considerable uncertainty as to how much will be received from the major contributor. While past experience confirms that the Member State generally does make substantial payments late in the year, it has informed the Secretariat that enabling national legislation has not yet been fully enacted. In the circumstances, the projection for payments to be made by 31 December 1998 does not include amounts that the Member State expects to be able to pay, but for which there is currently no national legislation.

15. On this basis, cash-flow projections include a contribution of $50 million for the regular budget, for which, the Secretariat has been advised by the Member State, national legislation is in place, but not $197 million, which the Government has indicated should be available for payment by the end of 1998 after national legislation is enacted. Accordingly, it is estimated that usable cash for the regular budget at the end of the year will be in a deficit position of $247 million. If subsequent national legislation makes possible the payment of $197 million to the United Nations by the major contributor, the regular budget cash deficit would be $50 million.

16. The deficit position projected for the end of the year continues the pattern that emerged four years ago. A modest deficit position in usable cash arose in 1994, with less modest deficits in 1995, 1996 and 1997. Now, a deficit of $247 million may occur in 1998. An interruption in the pattern of payment by the major contributor helps explain the Organization's chronic year-end cash deficits. Over the period 1991–1997, the major contributor paid an average amount which slightly exceeded regular budget assessments in the aggregate for that period, except in 1995. In that year, only 48 per cent was paid. Without a payment by the major contributor that offsets the shortfall in 1995, the United Nations will be in a deficit regular budget cash position at the end of each future year. Until this situation changes, the Organization faces the recurring need to cross-borrow.

2. Peacekeeping cash

17. Peacekeeping cash totalled $844 million at the end of September and is projected to drop to $775 million by the end of the year, a decrease of $37 million from the beginning of the year. Peacekeeping cash is expected to peak twice in 1998, at $894 million in March and a projected $885 million in October. In both cases, the peak levels of cash in-flows follow the semi-annual pattern now adopted by the United Nations for the bulk of peacekeeping assessments.

18. Overall, it is projected that total peacekeeping disbursements in 1998 will exceed peacekeeping contributions. This situation primarily reflects the reduction in assessment amounts, resulting from the application of accumulated credits in respect of the unencumbered balances of peacekeeping missions. There is also some effect on the overall negative cash flow where expenditures under the liquidation phase of several peacekeeping missions are not balanced by the collection of corresponding assessments.

19. In addition, there has been a sharp reduction since 1994 and 1995 in the level of peacekeeping activity. From an activity level of $3.4 billion in 1994, it is now projected that the 1998 assessment level will be about $900 million. Although the rate of decrease in 1997 through 1998 has been less significant than in 1996, the continuing trend has been down. The unavoidable corollary is that peacekeeping cash has diminished and will continue to do so, more or less in step with any future decrease in the level of peacekeeping activities.

20. Since cross-borrowing has been used extensively in recent years to compensate for the chronic deficit in regular budget cash, the continuing decrease in peacekeeping cash will have a profound effect on the Organization's financial stability.

3. Combined cash and cross-borrowing

21. As to the combined cash position projected for the end of the year, the overall picture is very clear. For each of the most recent years, the amount of combined regular budget and peacekeeping cash has been less than that of the year before. It is projected that at the end of 1998 combined cash will total $528 million, down from $728 million in 1995. This projection reflects a projected negative cash position of $247 million for the regular budget and positive balances of $775 million for peacekeeping.

22. On this basis, by the end of December, it would be necessary to cross-borrow approximately 32 per cent of peacekeeping cash to cover the deficit in cash available for the regular budget. The Secretariat is borrowing more and more from a smaller and smaller source. The level of required cross-borrowing implies a worrying further decline in liquidity.

D. Amounts owed to Member States

23. It is estimated that at the end of the year, the United Nations will owe $864 million to troop- and equipment-contributing countries, compared with $884 million at the end of 1997 and $838 million at the end of 1996.

24. Over the past several months, payments totalling $108 million have been made to troop providers. In the next few weeks, it is expected that an additional payment of $71 million will be made to troop and equipment providers, making a total reimbursement figure for 1998 of $179 million. In accordance with the Secretary-General's stated goal to pay the full amount of obligations incurred by the Organization during the year in which those obligations were incurred, every effort has been made to pay this year's costs incurred. Obligations for 1998 for troops are expected to

total $162 million and payments amounting to $164 million will be made for troop and contingent-owned equipment.

25. In addition to payments of current assessments, Member States have made arrearage payments of $15 million. It is the intention of the Secretary-General to pay additional reimbursements equal to the total arrearage contributions received. Unfortunately, even with this special year-end payment, and a net downward revaluation of equipment debt of $3 million, the Organization's debt will remain high at $864 million.

III. Conclusion

26. With cash down, with cross-borrowing becoming increasingly difficult and with significant and ageing debt, the question arises as to how much longer the situation can continue. The answer is that it can do so only as long as there is peacekeeping cash to cross-borrow and as long as Members participating in peacekeeping missions are prepared to tolerate the non-payment of debt that is owed to them. The only real solution, however, remains the complete payment of all assessments in arrears by all Member States.